

Pick of the week



L&T

Recommendation

BUY

Time Period

12 Months

Current Price

₹ 1476

Target Price

₹ 1850

Potential Upside

25.3%

Investment Argument

- L&T has paid all of its free cash flows (FCF) generation to shareholders and has not invested on a net basis in subsidiaries over FY16-21. The company has set the stage to deliver a high dividend payout ratio.
- L&T reported a healthy and in-line operating result in Q4FY21. The company reported a 6/14% yoy growth in the core E&C business revenues/EBITDA (operating profit), respectively for Q4FY21.
- We factor (1) 15% hit-rate in L&T's Rs9.6 lakh cr order prospects pipeline for FY22 and (2) 70 bps margin accretion by FY23 over depressed FY21 base.
- We note strong visibility for growth over FY22 and FY23 based on the current order backlog. We expect mid-to-high teens growth in revenues/EBITDA/PAT over FY20-23.
- We retain 17x earnings multiple for the core business. We arrive at the sum of the parts (SoTP) based fair value of Rs1,850.